

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 SS-15 ONY-00 /025 W
-----161934Z 112229 /40
R 160345Z APR 77
FM AMEMBASSY BANGKOK
TO SECSTATE WASHDC 1165

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STADIS////////////////////////////////

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E.O. 11652: N/A
TAGS: PFOR, AMGT, ECON, TH
SUBJECT: EAST ASIA ECONOMIC POLICY REVIEW

REF: (A) STATE 73295 (B) STATE 46359 (C) STATE 80342

1. SUMMARY: IN DEVELOPING OUR ECONOMIC POLICIES MAJOR EMPHASIS SHOULD BE GIVEN TO ENCOURAGING EXPANDED PRIVATE INVESTMENT AND TRADE, PROVIDING GREATER ACCESS TO THE U.S. MARKET FOR THAI PRODUCTS, RESTRAINING PL-480 RICE SALES IN THAI MARKETS, REACHING AGREEMENTS STABILIZING COMMODITY PRICES AND CONTINUING SUPPORT OF THAILAND'S DEVELOPMENT PROGRAMS THROUGH MULTILATERAL AND BILATERAL LOANS ON CONCESSIONAL TERMS.

2. THE IN-DEPTH REVIEW OF OUR ECONOMIC POLICIES, SCHEDULED FOR MAY, IS MOST TIMELY. WE WELCOME THE OPPORTUNITY TO COMMENT ON SPECIFIC AREAS WHERE MORE LIBERAL U.S. POLICIES COULD IMPORVE RELATIONS WITH THAILAND. WE AWAIT WITH INTEREST THE UNFOLDING OF OUR NEW APPROACHES IN LINE WITH THE "NEW DIRECTIONS" MANDATE SET BY THE CONGRESS IN DEVELOPMENT ASSISTANCE
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LEGISLATION, PARTICULARLY CONSIDERATION OF THE SPECIAL NEEDS OF "MEDDLE-INCOME" COUNTRIES NOW BEING STUDIED (REF C). WE FULLY SUBSCRIBE TO THE EMPHASIS IN OUR ASSISTANCE PROGRAMS ON HUMAN RIGHTS AND THE IMPROVEMENT OF THE LOT OF THE RURAL POOR. OUR INITIATIVES IN NEGOTIATING NEW FOOD POLICIES WILL BE OF GREAT INTEREST TO THAILAND. A SIGNIFICANT PRODUCER AND EXPORTER WITH

SUBSTANTIAL LATENT CAPACITY.

3. THE MAJOR THRUST OF U.S.-THAI ECONOMIC RELATIONS SHOULD BE ENCOURAGEMENT AND PROMOTION OF PRIVATE SECTOR TRADE AND INVESTMENT. A NUMBER OF MAJOR PROJECTS INCLUDING DRILLING OF PRODUCTION WELLS BY UNION OIL AND TEXAS PACIFIC AND THE CONSTRUCTION OF THE NATURAL GAS PIPELINE FROM THE GULF FIELDS TO BANGKOK, THE NEW JERSEY ZINC PROJECT AND EVENTUAL EXPLOITATION OF THE NORTHEAST THAILAND ROCK SALT AND LIMESTONE DEPOSITS AS PART OF A SODA ASH PROJECT, COULD LEAD TO SUBSTANTIAL BUSINESS FOR AMERICAN COMPANIES. EXPANSION OF EXISTING INVESTMENTS AND SCORES OF OTHER PROJECTS ALREADY SUBMITTED TO THE BOARD OF INVESTMENT ARE LIKELY TO BE APPROVED IN THE NEAR FUTURE AS THE PACE OF ECONOMIC ACTIVITY QUICKENS. AID FINANCING OF SURVEYS UNDER SECTION 661 OF THE FOREIGN ASSISTANCE ACT, EXIM FINANCING AND OPIC INSURANCE SHOULD, ALONG WITH WORLD BANK AND ADB LOANS, BE EXTENDED IN LARGER AMOUNTS TO BUTTRESS U.S. LOAN, COMPETITIVE POSITION (SEE A-78, THE EMBASSY'S RECENT ECONOMIC TRENDS REPORT, FOR AMPLIFICATION OF THE ABOVE).

4. WE AND THE THAI ARE MINDFUL OF U.S. DOMESTIC REALITIES, PARTICULARLY AS THEY RELATE TO RICE AND TEXTILES. HOWEVER, FOR THE PURPOSES OF THIS REVIEW, NOTE SHOULD BE TAKEN OF THE DESIRABILITY OF RESTRAINT IN PL-480 RICE SALES TO THAILAND'S TRADITIONAL AND DEVELOPING MARKETS. WE SHOULD ALSO BE FORTHCOMING IN GRANTING THAI REQUESTS FOR FLEXIBILITY IN IMPLEMENTING LIMITED OFFICIAL USE

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THE TEXTILE QUOTA. OTHER AREAS WHERE U.S. ENCOURAGEMENT OF THAI EXPORTS WOULD BE BENEFICIAL INCLUDE THE GRANTING OF A SUGAR QUOTA FOR THAILAND BASED ON AN EXCELLENT EXPORT PERFORMANCE OVER THE PAST SEVERAL YEARS, ASSUMING OF COURSE THAT A QUOTA SYSTEM IS ESTABLISHED, CONCLUDING A COMMODITY AGREEMENT WHICH WOULD STABILIZE PRICES FOR RUBBER, AS WE HAVE FOR TIN, AND EXTENSION OF GSP AND CONTINUED GUIDANCE TO THE THAI IN ITS USE.

5. THE RTG PRESENTED AN IMPRESSIVE DEVELOPMENT PLAN FOR THE PERIOD 1977-81 DURING THE RECENT CONSULTATIVE GROUP MEETING IN PARIS. THE FOURTH DEVELOPMENT PLAN ENVISAGES CAPITAL EXPENDITURE OF \$31 BILLION. THE RTG HOPES TO SECURE EXTERNAL LOANS OF \$4 BILLION, SOME OF IT ON CONCESSIONAL TERMS, FROM FOREIGN DONORS. THE WORLD BANK BELIEVES THE THAI HAVE MADE A CONVINCING CASE, EMPHASIZING IMPROVING DISTRIBUTION OF INCOME AND SERVICES TO THE RURAL AREAS, AND PLANS TO STRONGLY SUPPORT THE NEW PLAN. ACCORDING TO HENDRIK VAN DER

HEIJDEN, CHIEF OF THE BANK'S MISSION TO THAILAND, THE FOREIGN EXCHANGE PORTION OF THAILAND'S DEVELOPMENT NEEDS, 13 PERCENT OF THE TOTAL, WILL REQUIRE ABOUT \$800 MILLION ANNUALLY. HIS BREAKDOWN INCLUDES WORLD BANK LOANS OF \$200 MILLION, ADB \$100 MILLION, JAPAN \$100 MILLION, EUROPEAN AND NEW ZEALAND/AUSTRALIAN \$25 MILLION, OPEC COUNTRIES \$25 MILLION, SUPPLIER CREDITS \$100 MILLION AND SOME COMMERCIAL AND CONCESSIONAL SOURCE LOANS. VAN DER HEIJDEN INDICATES THE AVERAGE INTEREST RATE TODAY IS 8 PERCENT WITH TERMS OF TEN YEARS, THE THAI CONTEND THEY CANNOT FINANCE THE REQUIRED \$4 BILLION OVER THE NEXT FIVE YEARS AT THIS RATE BUT MUST HAVE LARGER CONCESSIONAL INCREMENTS.

6. WHILE THAILAND HAS A SOUND ECONOMY, GREAT POTENTIAL AND AN EXCELLENT CREDIT RATING BASED ON PRUDENT FINANCIAL MANAGEMENT AND HIGH RESERVES, THE RTG WILL BE SEEKING LIMITED OFFICIAL USE

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CONCESSIONAL LOANS FROM EXTERNAL SOURCES, INCLUDING THE UNITED STATES, TO MEET THE SHORFALL IN THEIR PROGRAM. DURING THE PARIS MEETING THE THAI DELEGATION TABLED A REQUEST FOR \$40 MILLION IN USG CONCESSIONAL ASSISTANCE. UNDER THE CURRENT DAPS ADOPTED IN 1974 OUR ASSISTANCE PROGRAM ENVISAGES NO NEW LOANS AFTER THIS FISCAL YEAR AND COMPLETION OF OUR LOAN PROGRAMS IN ABOUT 1981. IT IS THE EMBASSY'S VIEW, WITHIN THE CONTEXT OF THE CONTEMPLATED EA REVIEW, THAT THE PREMISES OF THE DAPS SHOULD BE RECONSIDERED. THAILAND DESERVES OUR CONTINUED SUPPORT. A CASE CAN BE MADE FOR FURTHER ASSISTANCE TO THIS COUNTRY THROUGH PROVISION OF CONCESSIONAL LOANS FOR SOME OF THE MOST IMPORTANT RURAL DEVELOPMENT PROJECTS PROGRAMMED IN THE FOURTH PLAN. THAILAND IS DEMONSTRATING THE ABILITY TO ACHIEVE ECONOMIC GROWTH WITH IMPROVED INCOME DISTRIBUTION AND WE SHOULD MAKE A CONTRIBUTION TO THE ONGOING DEVELOPMENT EFFORTS.

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ACTION EA-09

INFO OCT-01 ISO-00 ONY-00 /010 W

-----161058Z 109340 /14

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FM AMEMBASSY BANGKOK

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7. IT IS RECOGNIZED THAT THAILAND, BECAUSE OF ITS STRONG ECONOMY AND CREDIT POSITION, MAY WELL BE ABLE TO ACHIEVE MANY OF THE OBJECTIVES OF THE NEW PLAN USING ITS OWN RESOURCES AND THROUGH CONVENTIONAL EXTERNAL FINANCING. WE ALSO RECOGNIZE THE DESIRABILITY OF THE RTG DISCIPLINING ITSELF BY ESTABLISHING PRIORITIES IN ITS BUDGETARY ALLOCATIONS AND GIVING ECONOMIC DEVELOPMENT A HIGH PRIORITY. THE ABSORPTIVE CAPACITY OF THAILAND IS ALSO SUSPECT. POOR INTER-MINISTERIAL COORDINATION, INADEQUATE PLANNING, MANPOWER SHORTAGES AND LOW MOTIVATION WILL ALSO CONTRIBUTE TO FRUSTRATING SOME OF THE FOURTH PLAN OBJECTIVES. WE SHOULD NEVERTHELESS REMAIN RESPONSIVE TO THAI REQUESTS FOR LOAN SUPPORT FOR WELL-CONCEIVED PROJECTS IN THE CRITICAL YEARS IMMEDIATELY AHEAD. OUR PARTICIPATION, EVEN IF LIMITED, WILL ENCOURAGE AND BE SUPPORTIVE OF WORLD BANK, ADB AND OTHER BILATERAL DONORS. BY REMAINING A MEMBER IN GOOD STANDING OF THE CONSULTATIVE GROUP WE CAN PROTECT OUR LONG TERM INTEREST IN THAILAND'S DEVELOPMENT AND RETAIN CONSIDERABLE INFLUENCE IN SHAPING THE FUTURE DIRECTION OF THE PROGRAM. AID ADMINISTRATOR GILLIGAN'S COMMENT (REF C) THAT THE SPECIAL NEEDS OF LIMITED OFFICIAL USE

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MIDDLE-INCOME COUNTRIES ARE UNDER STUDY MAY BE PARTICULARLY PERTINENT FOR THAILAND. THE THAI HAVE BEEN CONCERNED BECAUSE THEIR RELATIVELY HIGH PER CAPITA GNP APPARENTLY EXCLUDES THEM FROM CONCESSIONAL LOAN CONSIDERATION UNDER PRESENT IDA AND USG CRITERIA.

8. SINCE THE WOODCOCK MISSION TO HANOI AND ANNOUNCEMENT OF U.S.-SRV TALKS IN PARIS THE THAI HAVE BECOME NOTICEABLY APPREHENSIVE AS THEY SPECULATE ON THE POSSIBLE MAGNITUDE OF U.S. ASSISTANCE TO WHAT IS TO THEM A DANGEROUS ADVERSARY. THEIR ANXIETY SURFACED DURING THE PARIS CONSULTATIVE GROUP MEETING IN AN EXPRESSION

OF CONCERN THAT WE MAY ABANDON THEM WHILE AT THE SAME TIME
AIDING AN ENEMY. THAI DISTRESS THAT THE U.S. MAY
CONTRIBUTE TO A TOO RAPID BUILD-UP OF THE SRV ECONOMY
IS HARED BY THE OTHER ASEAN NATIONS. IT IS, OF COURSE,
TOO EARLY TO PERCEIVE WHAT TURN THE PROPOSED PARIS TALKS
MIGHT TAKE BUT IT IS OBVIOUS AND WE KNOW IT IS WELL
UNDERSTOOD IN WASHINGTON, THAT IF AID OTHER THAN
HUMANITARIAN IS ACCORDED THE SRV, SOME OFFSETS, EVEN IF
THEY ARE SMALL GESTURES, MUST BE BUILT INTO THE PROGRAM
TO REASSURE THE THAI AND OTHER MEMBERS OF ASEAN,
ASPECIALLY FOR PSYCHOLOGICAL REASONS.

9. IT IS TO BE HOPED THAT NEW PROCEDURES CAN BE WORKED
OUT TO DISPENSE ANY NEW LOANS WE MAY EVENTUALLY DECIDE
TO EXTEND IN SUCH A MANNER THAT IT WILL STILL BE POSSIBLE
TO PROCEED NOW WITH A REDUCTION IN THE SIZE OF THE USOM,
AS PRESENTLY CONTEMPLATED IN THE MODE. THE U.S. PRESENCE
IN THAILAND HAS BEEN TOO LARGE FOR TOO LONG AND IT IS
HIGHLY DESIRABLE FOR US TO FURTHER REDUCE OUR PROFILE.
OTHER BILATERAL DONORS HAVE DEVELOPED TECHNIQUES FOR
ADMINISTERING LOANS WITH MINIMAL IN-COUNTRY STAFFS.
EVERY EFFORT SHOULD BE MADE TO SUPERVISE ANY FUTURE
PROJECTS FOR WHICH WE HAVE EXTENDED FINANCIAL SUPPORT
WITH A MAXIMUM OF WASHINGTON BACKSTOPPING AND WITH A
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FIELD STAFF MODEST IN NUMBERS IN THE EMBASSY AS AN
ECONOMIC DEVELOPMENT SECTION.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Sent Date: 16-Apr-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BANGKO08206
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770133-0472
Format: TEL
From: BANGKOK
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770450/aaaabrig.tel
Line Count: 257
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: dfe8cba3-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: ONLY
Reference: 77 STATE 73295, 77 STATE 46359, 77 STATE 80342
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 10-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2787823
Secure: OPEN
Status: NATIVE
Subject: EAST ASIA ECONOMIC POLICY REVIEW
TAGS: PFOR, AMGT, ECON, TH
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/dfe8cba3-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009